

FISCAL NOTE

Bill #: SB525

Title: Enact a statewide general 4% retail sales and use tax

Primary

Sponsor: Gerry Devlin

Status: As Introduced

| | | | |
|-------------------|------|-----------------------------|------|
| Sponsor signature | Date | Dave Lewis, Budget Director | Date |
|-------------------|------|-----------------------------|------|

Fiscal Summary

| | <u>FY2000 Difference</u> | <u>FY2001 Difference</u> |
|--|-------------------------------------|-------------------------------------|
| Expenditures: | | |
| General Fund | \$430,738 | (\$2,112,854) |
| Revenue: | | |
| General Fund | | \$81,389,495 |
| State Special Revenue | | \$892,817 |
| Net Impact on General Fund Balance: | (\$430,738) | \$83,502,349 |

| <u>Yes</u> | <u>No</u> | | <u>Yes</u> | <u>No</u> | |
|-------------------|------------------|----------------------------------|-------------------|------------------|-------------------------------|
| X | | Significant Local Gov. Impact | X | | Technical Concerns |
| | X | Included in the Executive Budget | X | | Significant Long-Term Impacts |

Fiscal Analysis

ASSUMPTIONS:

Sales Tax

1. The sales tax provided for in this bill is effective January 1, 2001; collections are remitted on a monthly basis; and sales tax revenue will be received by the state first in February of 2001.
2. Total sales tax liability after vendor allowance, bad debts, uncollectibles, and noncompliance is \$161,849,825 in fiscal 2001 and 330,992,838 in fiscal 2002.
3. Wholesale transactions, as defined according to Standard Industrial Code (SIC), are taxable unless they are sales for resale, sales of component or ingredient goods for use in manufacturing and mining, or the exempted agricultural inputs.
4. Sales of businesses classified as retail trade are taxable unless they are items specifically exempted in the bill or occur to out-of-state consumers (sales to non-residents consuming within Montana are taxable).

(continued)

5. For the purposes of this fiscal note, unless otherwise indicated as taxable by section 24, the exemption for services in section 24 is assumed to apply broadly to any activity that is engaged in for another person for consideration and that is distinguished from the sale or lease of property. Because of the broad exemption of services all construction, communication, utilities, and financial related services are not considered taxable. In addition only a small piece of transportation services are considered taxable.
6. Personal services is assumed to mean personal services as defined according to SIC. As such all portrait photographic studios, beauty shops, barber shops, shoe repair shops, funeral services, and laundry services are taxable.
7. Bad debts, uncollectables, and noncompliance reduce collections by 5% per year.
8. Vendor allowances are 1.5% of sales tax liabilities.
9. Sales taxes are remitted monthly in equal amounts throughout each calendar year.
10. Sales taxes paid to the state are accrued at the end of each fiscal year.

Motor Vehicles

11. Change in the taxation of motor vehicles will result in a FY2001 revenue loss of \$10,062,000 for the general fund, a loss of \$323,000 for state special funds, a loss of \$9,566,000 for local governments, and a loss of \$1,926,000 for local schools.
12. Change in the taxation of motor vehicles will result in a FY2002 revenue loss of \$22,077,000 for the general fund, a loss of \$676,000 for state special funds, a loss of \$20,040,000 for local governments, and a loss of \$4,034,000 for local schools.

Property Tax

FY01 Impact

13. Repealing the HB20 reimbursements will result in an increase of \$4,930,913 the general fund. Conversely, there will be a reduction in revenue of \$198,144 for state special funds, a reduction of \$2,787,339 for local governments, and a reduction of \$1,945,430 for local schools.
14. Repealing the SB417 reimbursements will result in a revenue gain of \$7,797,257 for the general fund, a reduction of \$4,244,901 for local governments, and a reduction of \$3,552,356 for local schools.
15. Exempting business equipment from property tax will reduce property tax revenues in FY01. The property tax revenue reduction is \$4,900,000 for the general fund, \$480,000 for state special funds, \$8,700,000 for local governments, and \$7,100,000 for local schools.

FY02 Impact

16. Repealing the HB20 reimbursements will result in an increase of \$8,629,097 the general fund. Conversely, there will be a reduction in revenue of \$346,753 for state special funds, a reduction of \$4,877,843 for local governments, and a reduction of \$3,404,502 for local schools.
17. Repealing the SB417 reimbursements will result in a revenue reduction of \$5,383,026 for local governments and a reduction of \$4,504,800 for local schools.
18. Repealing the statewide 95 mill levy will reduce revenues for the general fund by \$242,526,310.
19. Exempting business equipment from property tax will reduce property tax revenues by \$3,526,505 for state special funds, \$63,950,082 for local governments, and \$52,666,328 for local schools.

Contractor's Gross Receipts Tax

20. This proposal reduces the tax rate applied to contractor's gross receipts tax from 1% to 0.5% effective January 1, 2001. This reduces state general fund revenue by \$1,760,000 in fiscal 2001 and by \$4.,000,000 in fiscal year 2002.

Secretary of State – election costs

21. A voter information pamphlet will be printed for this issue. The VIP will be 173 pages in length for SB525. There will be 525,000 VIPs printed and circulated.
22. The cost to the Secretary of State for printing the VIP will be \$214,347. (173 pages * \$.00236/page * 525,000 VIPs).
23. The cost to the counties for distribution of the VIP will be \$758,934. (173 pages * .008356/page * 525,000 VIPs). Funding for these costs will be distributed to the counties by the Secretary of State through a general fund appropriation.
24. Although the Secretary of State does not have a general fund budget, the cost of submitting this issue to the electorate will be supported by general fund.
25. There is a regularly scheduled statewide election in November 2000, therefore there will not be additional expenses to the state and county to actually hold the election.

Department of Justice – Administrative costs

26. The motor vehicle system is not currently structured to provide an accounting or statistical database. Therefore, the Department of Justice, Motor Vehicle Division defers to the state and local government revenue projections prepared by the Department of Revenue.
27. The Department of Justice Motor Vehicle Division is making the following assumptions related to costs of implementing the motor vehicle registration portions of this bill as written.
28. Rule making procedures will require the publication of the proposed rules at an estimated cost of \$1,050 in FY 2000. (15 pages x 2 publications x \$35/page = \$1,050)
29. It will be necessary to contract for programming with an outside vendor since department programming staff are committed to completing the current backlog of more than 9,000 hours of programming necessary to comply with 1997 legislative changes, Y2K, and various other programs. One-time expenses for programming changes required by the passage of this bill are projected to cost \$96,150 for consultant services plus \$21,538 for increased computer processing charges generated during programming and system testing, or a total of \$117,688 during FY 2000. (1,282 hours x \$75/hr = \$96,150 + \$21,538 = \$117,688)
30. Start up of this bill would require eight regional three-day training sessions which would be held statewide for approximately 120 individuals at an estimated cost of \$3,600 for meeting rooms, \$66,240 for per diem, and \$69,888 for lodging, or a projected training cost of \$139,728 in FY 2001.
31. Operating expenditures are expected to increase \$31,050 in FY 2001 and \$62,101 in FY 2002 to provide the additional tabs for distribution by the county treasurers to taxpayers and increased computer processing time due to the extensive, complex computer runs.

FISCAL IMPACT:

| | <u>FY2000</u> | <u>FY2001</u> |
|--|-------------------|-------------------|
| | <u>Difference</u> | <u>Difference</u> |
| <u>Expenditures:</u> | | |
| Operating Expenses – Department of Revenue | \$312,000 | \$1,674,000 |
| Operating Expenses – Department of Justice | 118,738 | 170,778 |
| Operating Expenses – Secretary of State | 0 | 214,347 |
| HB20 Reimbursements | 0 | (4,930,913) |
| Transfers – Secretary of State | 0 | 758,934 |
| TOTAL | \$430,738 | (\$2,112,854) |

(continued)

Funding:

| | | |
|-------------------|-----------|---------------|
| General Fund (01) | \$430,738 | (\$2,112,854) |
|-------------------|-----------|---------------|

Revenues:

| | | |
|-------------------|--|--------------|
| General Fund (01) | | \$81,389,495 |
|-------------------|--|--------------|

| | | |
|----------------------------|--|-----------|
| State Special Revenue (02) | | \$892,817 |
|----------------------------|--|-----------|

Net Impact to Fund Balance (Revenue minus Expenditure):

| | | |
|-------------------|-------------|--------------|
| General Fund (01) | (\$430,738) | \$83,502,349 |
|-------------------|-------------|--------------|

| | | |
|----------------------------|--|-----------|
| State Special Revenue (02) | | \$892,817 |
|----------------------------|--|-----------|

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

(See attached tables)

LONG-RANGE IMPACTS:

(See attached table for fiscal year 2002)

TECHNICAL NOTES:

Department of Revenue

1. If the intent of this bill is to tax personal services as defined by SIC, then a definition of personal services that is consistent with that of SIC should be included.

Secretary of State

2. When considering the costs of an electorate vote, any costs greater than \$194,203 which are distributed to the counties must be funded by the Legislature. (1-2-112, MCA).
3. The Secretary of State does not have sufficient funding in their current budget to cover the expense of VIP for SB525.

Department of Justice

4. If this bill passes as written and in order to comply with the requirements of Section 64 (2), that portion of this bill that repeals 61-3-503 must be amended to retain the provisions of assessment of a motor vehicle. Those provisions for assessment for motor vehicles are the basis for the valuation of a motor vehicle to determine the amount of use tax imposed on all used vehicles by this bill.
5. References in Section 2(5)(a) to "[section 73]" do not appear connected. It appears that the reference to "[section 73]" should be amended to read "[section 64]".
6. It appears that Section 66(5)(b) of this bill making reference to 61-3-121(5) should instead read 61-3-321(1)(b).
7. The bill as written calls for a public vote in November of 2000, and if approved, applies to motor vehicle registrations effective January 1, 2001. Developing and implementing the system in only two months is not possible. If the desire is to implement the motor vehicle registration provisions of this bill effective January 1, 2001, funding to develop the system must be provided as soon as FY 2000. This funding would allow the development and implementation of requirements and programming develop for the system (estimated duration more than 9 months).
- 8.

